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Hopscotch

In the news

Adman has his stage stage

What others have daydreamed about, Bill Smith did. This spring he left the security of his job as exec vp at Leo Burnett USA to become an actor. Why? *See Page 5.* And, former New York adman Allan Wikman can speak from experience about the same leap into the unknown. *See Page 55.*

Photo by Arnie Adler

Eye lights

Tired of eyeliner that smudges and smears? Now you can have it applied permanently. Doctors across the country are "implanting pigment" —or, more familiarly, tattooing—around women's eyes to keep them highlighted through showers, tears and games of tennis. Called Accents, the technique was invented by a doctor who for years watched his nearsighted grandmother struggle with eyeliner. *See Page 6.*

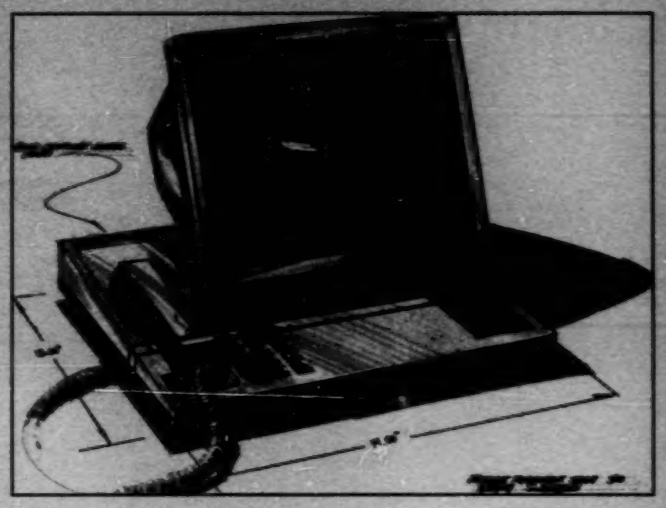
A presidential presence

Former President Jimmy Carter is one of a number of Georgia notables treading the boards —badly, in the opinion of the advertiser—in a series of ads to support Atlanta's Alliance Theater. D'Arcy MacManus Masius produced four *pro bono* 30-second tv spots, each featuring three renowned Georgians hamming it up. The spots close with an appeal for the theater's new subscription and fund drive, warning that if the show can't afford to go on, "The alternative would be to depend on 'other' talent—and that would be a tragedy." *See Page 54.*

Special Report

Grocery Marketing

Are supermarkets the dinosaurs of the 1980s? They won't be if they evolve to stay ahead of the competition. *Starting on Page 15 in Special Report.*



After two years' work, AT&T designers have come up with a personal terminal telephone they believe will enchant white-collar workers.

AT&T finally ready with ultimate phone

By Lenore Skenazy

"You know more than you think you know."

That reassuring first line in Dr. Spock's baby-care manual for new parents also could apply to new "parents" of the AT&T personal terminal telephone. For two years, AT&T's designers and engineers labored to create a machine so attractive and simple to use that white-collar workers would fall in love with it immediately, and learn how to handle it almost intuitively.

But how can you make state-of-the art computer equipment unintimidating, nay, enchanting to the average executive? You get rid of all the things that fluster him: Nix on keyboards, user manuals, confusing codes and bulk. Then you go a step further. You make the display screen squishy soft, so that a simple poke fetches the user whatever he wants. No muss or fuss. Even infants require a certain technical dexterity from their parents, but not this baby. You price it at $1,800 and christen it the PT510.

Design

The PT510 is a phone that works with a computer terminal and AT&T's phone systems to combine the functions of most things a manager would keep on his desk: Message pads, phone directories, business reports, a calculator, clock and calendar. It lets the user call his phone directory to the screen, tap the number he wants, have the machine dial it and leave a message if no one's there. That's two pokes of the finger. It also allows him to send messages to other PT510 terminals—even while he's talking on the phone—and to review and revise data from a mainframe computer. No keyboard is necessary for any of these functions, although one is sold separately. The entire unit will be ready to order by May 31, and has just been unveiled. This is the story of how AT&T designed it.

* * *

AT&Ts first "computer phone" actually made its debut about four years ago, for testing purposes only. A hodge-podge of existing hardware, it was called "The Epic." Though it quickly evidenced some serious flaws, it was clear that with the Epic's phone and terminal marriage, "the egg had met the sperm," as designer Don Genaro put it.

Mr. Genaro is a senior partner at Henry Dreyfuss Associates, a Manhattan company that has been designing AT&T equipment since the 1930s. At the Dreyfuss loft, Mr. Genaro, his partner Gordon Sylvester and senior designer Steve Miggels created the way the PT510 looks. Poring over old pictures of the Epic there recently, the threesome shook their heads at how far the PT510 had come.

One of ancestor Epic's biggest problems was that its phone didn't have a dial. That's right. Users were expected to make phone calls using the numbers on the typewriter keyboard attached. Since most people are far more familiar with the phone dial than the typewriter, this method proved cumbersome, even ridiculous. But discovering mistakes is what prototypes are for.

Epic's other big problem was the fact that it required a keyboard at all. First of all, said Mr. Genaro, many executives balk at the idea of a keyboard in their office. "It's like a mop and a pail." Even more damning, many of those same executives simply don't know how to type. To them, mastering the Epic would be a daunting, not to mention embarrassing, task. The design was dropped even before AT&T tried test-marketing it.

While the Epic was getting kneaded at AT&T's human factors research centers, Bell Laboratories was experimenting with gentle prods of the finger. Bell wanted to create a "touch screen" for the terminal that would respond to people tapping on it. Although some screens already did use touch, they were made of hard glass. Using them was about *as sensually pleasing as tickling a Coke bottle. Furthermore,*

(Continued on Page 58)

Presstime

BBDO charges for Visa

NEW YORK—Visa USA has named BBDO here to handle its $20 million domestic account, formerly in-house (AA, Jan. 28, *et seq.*). BBDO/West, San Francisco, will be involved in management, account services, media and research aspects of the account. New advertising is expected to break this fall.

Henderson picks up two

NEW YORK—Hilton International this week assigned its $3.5 million account to Henderson Friedlich Graf & Doyle after a two-month search. Lord, Geller, Federico, Einstein resigned the account in February. Separately, Reader's Digest Assn., Pleasantville, N.Y., gave Henderson a corporate advertising assignment estimated to be worth $2 million. There was no previous agency for the corporate work.

'Space' rockets past rivals

NEW YORK—CBS-TV's "Space" miniseries began with an A.C. Nielsen Co. 19.4 rating/31 share on April 14. It ranked 14th for the week and beat NBC and ABC movies competing against it. NBC, however, stayed out front for the week.

Faberge, N&L part

NEW YORK—Faberge and Nadler & Larimer finally have called it quits after some 20 years together. N&L on Aug. 1 will officially resign the Organics brand, the only nationally advertised Faberge brand it retained after Kenyon & Eckhardt was awarded Aqua Net, Babe and Brut. K&E will now pick up Organics and project development that N&L had. Separately, Faberge reportedly has canceled its plans for introducing an upscale Erte fragrance. Instead it will roll out new mass-market fragrance brands in 1986.

Dior appeals Jackie ruling

NEW YORK—Christian Dior/New York, J. Walter Thompson USA, Richard Avedon and model Barbara Reynolds have filed an appeal in a New York state court in a bid to overturn a ruling that they trampled on the privacy rights of Jacqueline Onassis by using her look-alike in a Christian Dior ad (AA, Jan. 23, '84). The lower court issued a preliminary injunction against further distribution of the ad at that time. The appeal's outcome may be key in determining whether Ms. Onassis is entitled to damages.

FTC, MADD eye ads

WASHINGTON—Federal Trade Commission chairman James Miller warned alcohol advertisers this week to clean up their advertising and promotional acts, especially when it comes to on-campus promotions. Mr. Miller cautioned the industry after announcing that the FTC will not consider any rule to ban or restrict alcohol advertising on an industrywide basis. The FTC is watching specific beer ads and promotions, he noted, and that regulatory action could be taken on a case-by-case basis. Separately, Candy Lightner, founder of Mothers Against Drunk Driving, called for the alcohol industry to establish advertising guidelines by Jan. 1, 1986. She spoke at the National Assn. of Broadcasters meeting in Las Vegas. Congressional representatives at the NAB convention

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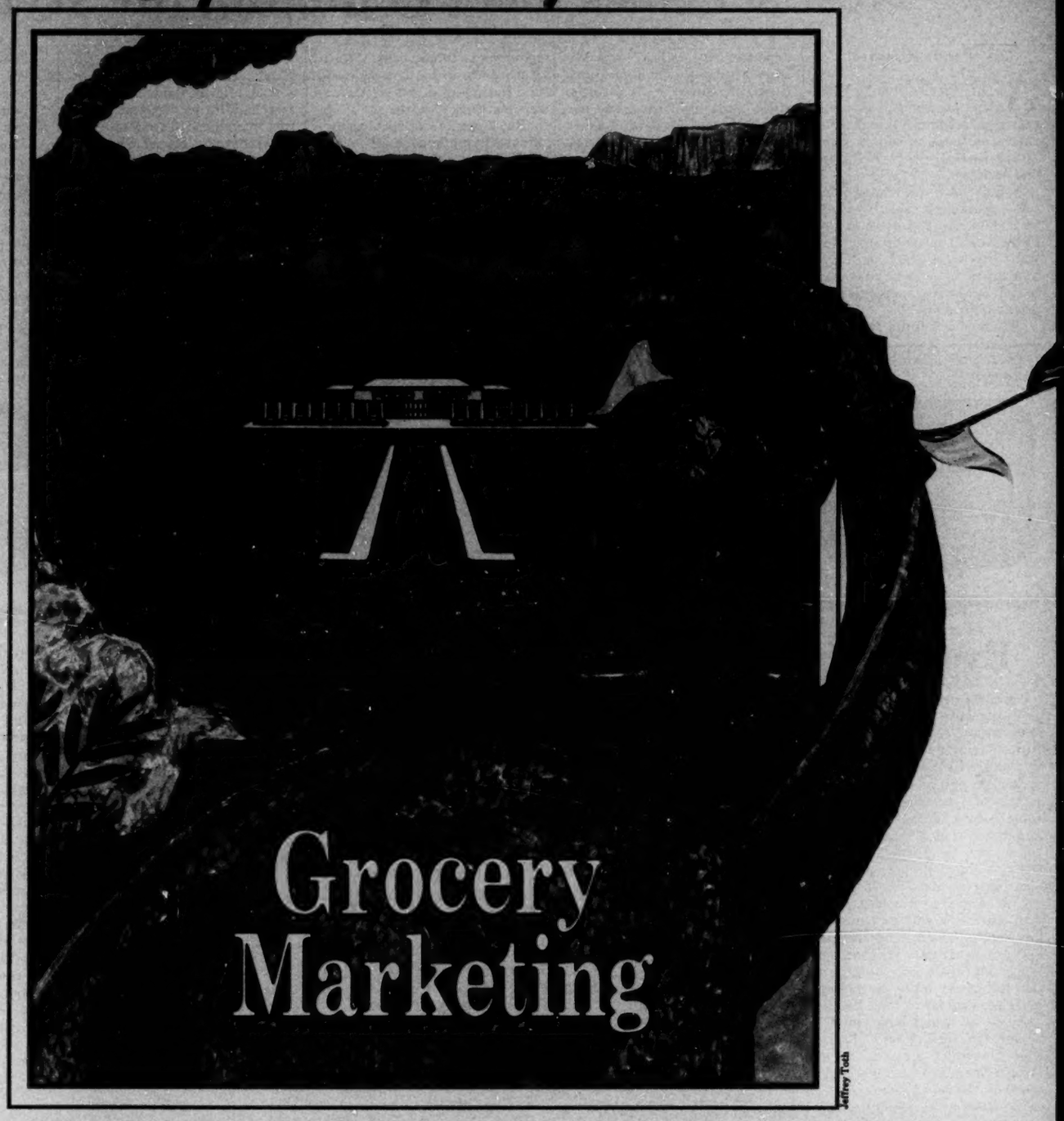
Special Report



Supermarkets evolving to avoid extinction

By Mary McCabe English

Supermarkets are the innovation of the 1950s. Are they the dinosaurs of the 1980s?

Not yet, but they are under a lot of pressure from a rapidly changing grocery retailing environment, and the key to survival may be how well supermarkets can evolve.

Competition is the first and most obvious force prodding supermarkets to change. The competition for America's food dollar is increasing rapidly, industry experts says. Shoppers can spend their grocery budget in a different kind of food store almost every day of the week if they like—warehouse stores, carryout stores, bulk groceries, ethnic stores, gourmet shops, health food stores—without setting foot in one of the "traditional" supermarkets that trace their roots to the 1950s.

In immediate response to this competition, supermarkets are trying to become more things to more people.

Gone are the days when a supermarket automatically equaled an esthetically barren 20,000 sq. ft. filled with more than 10,000 items. Today's supermarkets range from smaller neighborhood markets to superstores and combo stores that average up to 55,000 sq. ft. and include amenities such as pharmacies (found in a combo store but not a superstore), flower shops, salad bars, takeout food sections, sit-down restaurants, juice and fruit bars, health food sections, dry cleaning services, photo processing and banking.

There's even a more flamboyant "hypermarket" format that combines supermarket and discount department store in spaces from 100,000 to 200,000 sq. ft.

Though these huge retailers, such as Bigg's, which was opened last year in Cincinnati by Hyper Shoppes, generally are not given much of a prognosis for widespread success in the U.S., the more conservative superstores and combo stores are seen as state of the art in food retailing, the competitive tool that will bolster supermarkets' position as the main grocery outlet for most shoppers despite the emergence of alternative specialty formats.

Progressive Grocer, a grocery trade publication based in Stanford, Conn., has tracked dramatic growth in the number of superstores, combo stores and warehouse stores during the past 10 years.

There were few superstores and combo stores 10 years ago, but today they account for one-third of the sales made by supermarkets that do at least $2 million a year in business, according to Walter Heller, *Progressive Grocer's* research director. Many of the country's top supermarket chains are investing in these formats for the future.

Tim Hammonds, senior vp at the Food Marketing Institute in Washington, says these supermarket formats probably will continue to evolve through the decade, heading off erosion of grocery sales.

"The specialty food store is not going to become the dominant format for food sales," Mr. Hammonds says.

To prevent that, supermarket chains will respond to the competition and changes in consumer preference with whatever format the marketplace requires. "The most important single force influencing food shopping today is the need for one-stop shopping for the bulk of shopping trips. Now, that doesn't mean that people won't

(Continued on Page 16)

Mary McCabe English is a frequent contributor to Special Report and a grocery marketing watcher.

New services meet changing life styles

By Wendy Kimbrell

As Americans change their shopping habits, some grocery retailers are supplementing their traditional price-item marketing tactics with new images and services.

Retailers are still emphasizing price, marketing executives say, but they want consumers to know that the products they want at prices they want are available in stores that can match a styliah, convenience-oriented life style.

"There is a definite change in supermarket retailing," says Michael Mulligan, communications director, Super Valu Stores, Eden Prairie, Minn., the nation's largest food wholesaler and supermarket chain. "Just as American families are less homogenous today, so are supermarkets."

Says another industry official, "A lot of the change has to do with the working woman and the working mother. Those people simply don't have time to sit and read the paper page by page to hunt for bargains anymore."

Hundreds of chains still highlight weekly specials and promotions in their advertising, but many have added more tv and radio spots to go with the coupon inserts in local newspapers and the glossy, direct mail circulars featuring specials.

But some are adopting more innovative approaches.

The entry of discount warehouse food chains into the marketplace has made the supermarket industry more competitive than ever. As the mammoth stores slowly spread across the country, they blast the airwaves with slick ad campaigns backed with fat ad budgets.

While some of these marketers pitch convenience and value, others highlight over-all low prices rather than special prices on particular items.

In the Midwest, for example, Bigg's, a 200,000-sq.-ft. hypermarket offering food and general merchandise at discount prices was introduced last October in Cincinnati by Hyper Shoppes, owned by Euromarche Co., a Parisian retailer with about 55 hypermarkets in France.

Bigg's draws about 50,000 customers a week, and industry sources estimate it generates $2 million in weekly sales.

Diana Carter, account supervisor at Southfield, Mich.-based W.B. Doner & Co., the agency handling the Bigg's account, claims 95% of Bigg's weekly customers are lured by the multimedia ad campaign.

The campaign, touting the theme "True Minimum Pricing. A new way to shop for food . . . and everything else," challenges competitors' price-item ad strategies and emphasizes an economical image.

One 30-second tv spot warns consumers to avoid "specials." The copy says: "Supermarkets lose money on most specials. But don't feel sorry for them. They make that money back and more by charging higher prices on everything else. The bottom line is, you pay more for food. Bigg's doesn't have specials. We have true minimum pricing on every item every single day."

Other Bigg's spots highlight

Wendy Kimbrell is a free lance writer.

W.B. Doner & Co., Southfield, Mich., handles Bigg's multimedia ad campaign touting "True Minimum Pricing."

Evolving

(Continued from Page 15)

go to specialty food stores when they want something special. But we're not headed back to 'butcher, baker, candlestick maker' shopping," he says.

Catering to this desire for something special, Mr. Hammonds says, new supermarkets will tend to be of the large variety with many specialty and service departments.

Customer convenience, selection and price will continue to motivate all shapes and sizes of grocery retailers. Warehouse store operators will heighten their consumer appeal by adding more perishables to their inventory, he says, and large, multi-department food stores will continue to reduce prices to make themselves more cost competitive with the warehouses.

"So what we're seeing in this case are two prominent store formats starting to evolve toward each other, and in 10 years there may not be much distinguishable difference between the two," Mr. Hammonds says.

Stores' evolutions will reflect consumers' needs and demands.

Bill Joseffer, marketing director-grocery products for *Better Homes & Gardens*, told the Grocery Manufacturers of America's Consumer Affairs Conference in Washington last month that today's shopper is on a quest for convenience and "wants to find a full spectrum of services [at the supermarket] . . . from banking and stocking up on wines and liquor for tonight's party, to buying freshly cut flowers and mailing packages in a post office branch."

There remains room for smaller supermarkets. Willard Bishop, a consultant from Willard Bishop Consulting Economics, Barrington, Ill., says the future won't be a case of big stores supplanting all smaller supermarkets. Smaller supermarkets also will change, adding selected specialty departments. Smaller supermarkets still are needed by consumers. It takes a certain population density to support very large stores, Mr. Bishop says, so they simply won't be cost-efficient in some areas.

Mr. Bishop also agrees with Mr. Hammonds that in the face of competition, many smaller supermarkets will find ways to close the price gaps between them and larger stores.

"Under these circumstances, everybody making a store choice has fewer reasons to go to the big store, so I don't really see out and out domination at the expense of the smaller stores," Mr. Bishop says.

John B. Lightfoot, exec vp of Supermarket Insights, a New York company that produces monthly and quarterly video reports on critical issues related to the grocery and convenience store industries, respectively, also sees a lot of blending of grocery store types and strategies as savvy retailers look to survive by carving out new, narrower marketing niches in a highly dimensional society that on one side squeezes them with pressure for value and price, and on the other with pressure for variety and premium goods.

The market, he says, has become so segmented that pat definitions for convenience, quality and value just don't work.

"The basic factor at work behind all the shifting and melding of store formats is the demassification of food distribution," Mr. Lightfoot says.

That makes it increasingly important for food retailers to know their customers and come up with marketing and advertising approaches designed to deal with the differences within that group, he says.

In this kind of environment, traditional price advertising in the local newspaper won't always be enough. At the same time, attention to image takes on new importance, FMI's Mr. Hammonds says.

"The big challenge in food marketing right now is knowing how to reach an extremely diverse customer base," Mr. Hammonds says.

"It follows that if the customer base is more diverse, advertising needs to be more diverse. In line with this, everyone is using more media.

"For example, if you're trying to reach the growing Hispanic audience, radio is usually more effective than newspaper advertising, which generally gets poor results with that market. Or, in close, well-defined neighborhoods, fliers to the door might work best," he says.

Newspaper is still the backbone of food advertising, "but people are also using a lot more tv, radio and alternative advertising, such as fliers, than they used to," he says.

"Another aspect of this is that with scanners, food retailers are better able to measure the effectiveness of their advertising. And these measurements are going to mean a much more objective evaluation of advertising."

Bruce F. Failing Jr., president of Actmedia Inc., says in-store marketing also has become more important than ever as a means of maximizing customers' buying potential.

Not coincidentally, Actmedia, which has offices in Darien, Conn., and Speonk, N.Y., has been conducting in-store programs for the past 12 years, including the placement of ads on supermarket shopping carts and aisle directories, in-store distribution of cents-off coupons, product samplings and demonstrations for many major package goods clients.

Mr. Failing builds his case for in-store advertising on the assertion that grocery shoppers can't be reached totally by either newspapers or tv. In addition, he says, only a third of all shoppers use lists and even though stores are generally bigger, with more items per store, than in the past, "average shopping time is still only 30 minutes."

"As convincing as Mr. Whipple is, you don't walk into a store picturing him squeezing the Charmin," Mr. Failing says in reference to Procter & Gamble's bathroom tissue spokesman. "You need something right there to bring him back to awareness.

"In the supermarket, profit depends on turnover, and in today's market, especially with the increasing attention being given to direct product profitability, the manufacturer needs all the help he can get to make his product profitable to the retailer."

Mr. Hammonds says technology also will play a major role in helping food retailers determine product profitability and control costs in a marketplace that contains so many variables.

Grocery competition "is like a two-edged sword," he says. "Business as usual is very dangerous at a time when the customer base is changing so much. And retailers have to be very

Where we shop
Do you or other members of your household use cents-off coupons when you shop?
Yes 68.2%; No 31.8%
Source: Simmons Market Research Bureau, 1981 study of media and markets
Where do you redeem your coupons?
Grocery stores 55.4%
Fast-food chains 15.6%
Discount stores 15.4%
Drug-stores 12.6%
Don't know 10.6%

particular departments, such as produce or meat. Although company officials would not divulge budget figures, some industry analysts estimate the budget for the Bigg's campaign to be more than $2.5 million.

W.B. Doner also has devised image campaigns for two other large retailers, Cub Foods and Farmer Jack Supermarkets.

Cub, owned by Super Valu, is a Stillwater, Minn.-based discount warehouse chain with 26 units in the Midwest and South and plans to open 16 more stores this year. Throughout its history, Cub advertising has highlighted low prices.

The company shifted its account in February from Chuck Ruhr Advertising, Minneapolis, to W.B. Doner because Cub officials were impressed with the job Doner had done for Bigg's, according to Mr. Mulligan. The ads will continue to emphasize low prices, but won't link economy to only special items.

Another midwestern chain, Farmer Jack Supermarkets, an 85-unit chain owned by Borman's Inc., Detroit, is helping parents prepare plans should their children become lost.

Through a joint venture with Purchase, N.Y.-based PepsiCo and WDIV-TV, a Detroit tv station, Farmer Jack is running a campaign urging parents to obtain a "New Generation ID Card," which posts a child's picture and other identifying information, at any Farmer Jack store.

Ads emphasizing the theme "If you think it's frightening to be the parent of a lost child, imagine how the child feels," explain how the card may help some children who become "too scared for words." The ads will run through May.

Farmer Jack, which in 1983 ran a campaign introducing shopping carts designed for the handicapped, now promotes other services such as the "Want Card," a program enabling customers to order items not available at Farmer Jack's.

Farmer Jack's script says, "Another reason why one supermarket is better than the rest."

"Loyalties toward merchandisers are sometimes fickle," a Farmer Jack spokesman says. "But if you give customers more reasons than price to visit your stores, your chances of gaining consumer loyalty are much better."

In Southern California, where several major chains battle for market share, supermarkets are stretching beyond price advertising to promote "quality," and expanding use of image-building spot tv.

While most of the Southern California chains have taken their ad campaigns to the airwaves, Alpha Beta Co., La Habra, Cal., was one of the first to redirect the majority of its ad dollars from print to tv in the 1970s. The chain, which stresses its reputation for over-all low prices rather than specials with its "Where the Savings Don't Stop" theme, also is promoting its "Win a Million" sweepstakes with a multimedia campaign.

The sweepstakes, offering an array of prizes, including $25,000 jackpots and automobiles, will award one winner $1 million in May.

Bozell & Jacobs, Los Angeles, manages the Alpha Beta campaign.

Lucky Stores, Dublin, Cal., which operates 620 Lucky food stores in eight states, is also looking to enhance itself.

"We're trying to promote a high quality image," says Larry Davis, vp-ad manager, Lucky's southern food division. "A lot of customers shop a store for more than just price."

A low-price leader, Lucky shifted its advertising from price-item about a year ago when it began spreading its "more than low prices" theme through its markets via spokeswoman Stephanie Edwards, who promotes over-all quality and value. Advertising is handled in-house.

Although the number of supermarket retailers eschewing price-item advertising is growing, there are some marketers that prefer to stick to tradition.

Larry Nauman, vp-advertising, Dominick's Finer Foods, Northlake, Ill., a conventional supermarket chain with 82 Chicago area locations, says, "We are very comfortable with price-item advertising. It has been successful for us, and while some of our competitors are departing from it, we don't see any need to."

Some Bigg's spots highlight price and others particular departments, such as produce or meat.

sensitive to trends and what's going on in other parts of the country. But, at the same time, this diversity has created a lot more opportunity."

Mr. Joseffer relates the changes and opportunities within the food retailing industry to a perception popularized by author John Naisbitt in "Megatrends."

"Keeping an eye on consumer interests and marketing to those interests will be the key to successful supermarketing in the future," Mr. Joseffer said at last month's GMA conference. "Recognizing the food renaissance and the consumer's interest in food as a means of status, self-esteem, creativity and self-fulfillment, and catering to that interest will mean greater sales and profits in the future.

"Food is no longer just fuel to stoke the furnace of work. It offers the reassurance of high-touch in a high-tech world."

That's hardly the talk of dinosaurs.

Chains cultivating superstores

Although industry observers say there's plenty of room on the retail food horizon for conventional supermarkets, the country's top chains are committed to developing superstores and combo stores in the 1980s.

Superwarehouse stores also promise to make a mark on the evolving grocery scene.

A&P, for example, has rebounded from the operating problems it had been burdened with and has undertaken an aggressive remodeling and building program that is moving all of the Montvale, N.J.-based chain's stores toward the superstore concept.

A&P's prototype Futurestore opened in Allendale, N.J., last November, and the company has two other superstores in Baton Rouge, La.—all three are remodeled existing structures. A&P's first newly constructed Futurestore, consisting of 40,000 sq. ft., is scheduled to open in Atlanta by late spring.

In addition, an A&P spokesman says, the company's Family Mart combo stores—24 stores of 55,000 sq. ft., with eight more scheduled for construction by the end of 1986—are one of the company's fastest growth areas.

A&P also is working on the prototype for a new superwarehouse concept, with plans calling for a possible opening this summer at an undisclosed location.

Robert E. Wunderle, an economist and vp-public affairs at Supermarkets General Corp. in Woodbridge, N.J., agrees that strength lies with the expanded store or warehouse.

"The basic concept at work here is the desire for one-stop shopping and shopping trip elimination, and the primary consideration in the way anyone sets up has to be convenience," Mr. Wunderle says.

All of Supermarkets General's 135 Pathmark supermarkets are either combo stores (90) or superstores (44). In the future, Mr. Wunderle says, the dominant store types will be the combo store, "an enlargement and refinement of the superstore," and the so-called hybrid warehouse, "which has evolved from the basic warehouse that carried only dry groceries ... to include perishables and specialty departments."

Both types afford maximum convenience, he says.

Kroger Co., an industry leader in store product and hours expansion, has built nothing but superstores or combo stores since 1972. And, according to a spokeswoman for the chain, "The kinds of stores we've been opening for the last two or three years have been virtually all combination stores, which we see as expanded superstores. And we're invested heavily in this concept for the future, because our research continues to show that this is what people want."

Safeway Stores, the Oakland, Cal.-based supermarket giant, also is convinced superstores are the answer to many of today's food retailing needs.

Superstores of between 35,000 and 60,000 sq. ft. are "the mainstay of our building program," a corporate spokeswoman says, and "more than 80% of the stores we built between 1981 and 1984 were superstores.

"We do have a lot of traditional-size stores left, and we're also putting in smaller stores where desirable," she says. "Our emphasis is on superstores."

The same is true for Lucky Stores, based in Dublin, Cal.

"We've been putting a lot of emphasis on bigger stores and the addition of more service and specialty departments in existing stores," a spokeswoman says. "Our new prototype Food Center is over 40,000 sq. ft., with delis, bakeries, more produce, more meat and fish and expanded liquor and wine. And we'll be concentrating where possible on building stores in the 40,000 sq. ft. range."

Lucky also operates two hybrid Big Bear warehouse stores in Seattle.

Boston-based Stop & Shop Supermarket Co. also has embarked on an aggressive program that will make it a virtually all superstore company.

"We will not be building any new stores that won't be superstores," company spokeswoman Michele Vaughters says. "Fifteen of our 119 supermarkets are currently superstores, and based on what we've learned from our consumer board program, this concept is definitely the wave of the future, for us and for the industry generally."

Even Jacksonville, Fla.-based Winn Dixie Stores, which has trailed other top 10 supermarket chains in adopting the more nonfood and specialties format, has begun to get into the act.

"We have two stores in the 45,000 sq. ft. range and many more in the 35,000 sq. ft. range, and we'll have more in the 45,000 range within the years," says Mickey Clerc, Winn Dixie's ad director. "We are building larger stores every year." *M.M.E.*

Competition gains ground

Research compiled by *Progressive Grocer*, Stamford, Conn., charts the increased popularity of new supermarket formats such as superstores and combo stores during the past 10 years.

In 1975, the magazine reports, conventional supermarkets accounted for 97% of all food retailers that recorded more than $2 million annually in sales; superstores accounted for 2%, and economy stores (warehouses, limited assortment stores and super warehouses) 1%. This is based on a total of 19,370 stores.

Progressive Grocer's most recent figures show that in 1984, conventional stores made up 75% of food stores; superstores, 13%; combo stores, 2%, and economy stores, 10%, based on a total of 30,175 stores with annual sales more than $2 million.

Research shows conventional supermarkets brought in 96% of the business in 1975; superstores, 3%; combo stores and economy stores, less than 1% each, based on total sales of $82.1 billion by stores with sales of more than $2 million.

In 1984, conventional supermarkets did only 59% of the business done by food stores with more than $2 million in annual sales; superstores, 25%; combo stores, 5%; economy stores, 11%, based on total sales of nearly $189.2 billion.

Progressive Grocer research director Walter Heller says total 1984 grocery sales—including those by stores recording less than $2 million in sales a year—came to $263.8 billion. Stores with sales of more than $2 million accounted for about 72%; convenience stores, 6%; and others, 22%. —*M.M.E.*

Alternatives gain on price and print ads

By Russell Shaw

Once upon a time, grocery advertising was simple. When your competition advertised ground beef for $1.39 a pound, you advertised the product for $1.29 a pound.

Along with the other 40 or so items that the regional office dictated would be on sale that week, a drawing of the ground beef would be etched in a page display ad, ready for display in the food section of the metropolitan daily.

> **"In many cases, price has become a neutral factor .... There's a lot more emphasis on service and selection."**
>
> —*Susan Schmierer*
> *L.F. Rothschild*

Now, grocery advertising is changing in terms of media and creative content. The annual total grocery ad budget in the U.S., more than $2.1 billion in 1983, is being divided and conveyed in a greater number of ways.

Although specific buying and creative strategies vary by region and company, two key trends are emerging. Price is no longer the automatic primary consideration in grocery ads, and run-of-print is not automatically the medium with the message.

Statistics for 1984 will be released in early May by the Food Marketing Institute, but comparing 1983 and 1982 data shows a change in grocery media mix. In 1982, 57.2% of grocery ad dollars were spent in newspapers. By 1983, that bite had declined to 42.1%. Direct mail also diminished, shrinking from 13.7% of dollars spent to 12.4%.

The biggest shock, observers say, was that spot tv also dropped, going from 13.2% to 10.8%.

However, 1984 statistics released by the Television Bureau of Advertising show tv advertising (mostly in spot tv) increased nearly 10%, to about $253 million.

The big spenders in tv spot advertising, according to TvB, were: Kroger Co., Cincinnati, with $20.5 million; Safeway Stores, Oakland, Cal., with $20.1 million; Winn Dixie Stores, Jacksonville, Fla., with $14.3 million, and Lucky Stores, Dublin, Cal., with $8.6 million.

From 1982 to 1983, radio's share of grocery ad dollars increased from 7.7% to 12.8%. In-store coupons were the real winners, mushrooming from 2.6% to 14.9%, according to FMI.

Many of the media changes can be linked to consumer lifestyle changes and the use of image rather than price advertising, industry experts say.

Price customarily has been viewed as the only tangible component able to be communicated in standard print advertising, while the electronic media traditionally have been seen as the perfect venue for image ads.

A survey in the April issue of *Progressive Grocer*, an industry magazine, reported on consumer responses to grocery advertising.

"The older the shopper is and the less income they have, the more they 'almost always' read supermarket newspaper ads in preparing a trip to the grocery," says Walter Heller, director-research for the trade publication. Newspaper ads are read by 47% of consumers younger than 35, but this increases to 64% of consumers age 35 to 54 and 78% of consumers 55 and older, he says.

Income levels skew similarly, according to the same study. While only 48% of high-income consumers read the food ads, 62% of middle income and 77% of low-income consumers do.

"What this shows to me is since price is not a major concern of the upper-income levels, then other ways are needed of pulling in the consumer," Mr. Heller says.

"The marketplace is becoming more sophisticated, and the consumer knows what is going on now," says Susan Schmierer, grocery industry analyst with L.F. Rothschild, Unterberg, Towbin, New York. "In many cases, price has become a neutral factor. Supermarkets have begun to understand the competitive role better and have responded with the inception of several new formats. There's a lot more emphasis on service and selection."

But that doesn't necessarily mean price-item advertising is obsolete. Grocery retail advertising is still an inexact science.

"There's no question that consumers have put other priorities on their shopping list besides price," says Marvin Goldsmith, vp, Campbell-Mithun, Chicago, agency for the $175 million-plus ad account of Kroger Co. "There's no question that the industry has recognized consumers' interest in nutrition, life style changes and more exotic menu items. Broadcast, which gives you more opportunity for sight and sound, is the first place everybody looks for creativity."

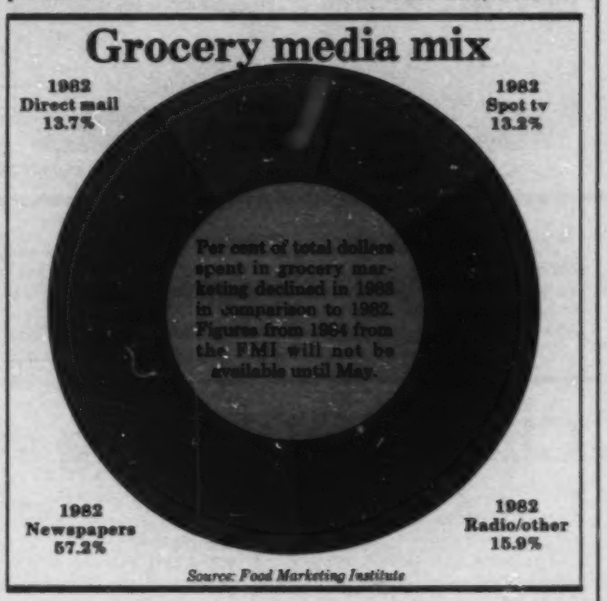
But creativity—even on tv—is not achieved automatically. "Everything we're saying today has been said in the past. It's just how to say it a little differently that matters," says Bob Snyder, vp, Bowes/Hanlon/Yarborough, Atlanta, agency for the 75-store Food Giant chain.

The chain currently features the president of the company as a spokesman in a tv spot using unusual angle photography.

The answer to whether to use price-item advertising depends on what the grocer's problem is in the market, says Sheldon Sosna, industry consultant and publisher of "Supermarket Advertising Newsletter."

"I don't think there's a set answer. If you are a conventional supermarket in Indianapolis facing Cub Stores, you might do well to say you have Hellmann's mayonnaise on sale for 89 cents, because Indianapolis is a price-conscious market dominated by price-conscious stores," Mr. Sosna says.

"Kansas City is another extremely price-conscious market. But in Southern California, for instance, everybody is priced together, so you might want to talk about how great your meat or produce is."


Grocery media mix
1982 Direct mail 13.7%
1982 Spot tv 13.2%
Per cent of total dollars spent in grocery marketing declined in 1983 in comparison to 1982. Figures from 1984 from the FMI will not be available until May.
1982 Newspapers 57.2%
1982 Radio/other 15.9%
Source: Food Marketing Institute

While advertisers debate price vs. image, consumers raise another issue.

"Supermarket advertisers need to do a better job zeroing in on consumers' major concerns," says Mona Doyle, president of the Consumer Network, a national organization based in Philadelphia. "They are sort of doing price, image and freshness, but people are overwhelmingly concerned about ingredients and hassle."

Ms. Doyle cites a national survey that indicates long checkout lines are a greater concern to shoppers than price. "We're talking about the poverty of time vs. the poverty of dollars," she says. "The complexity of today's shopping experience is very hard for that industry to get wrapped around. They have to learn to zero in on a smarter consumer who is willing to pay for less hassle and wants to know more about the food they eat."

While the advantage of shorter checkout lines and the explanation of inventory selection are not major parts of the grocery ad message, nutrition is finding exposure in a relatively new vehicle, in-store print advertising.

The publication of nutrition-oriented booklets, either in tandem with food marketers or in-house, is more of a promotion than an ad function, yet these pamphlets, published by many leading supermarketers, either contain coupons or are displayed near in-store circulars.

Stores active in the informational publishing field include Kroger; Jewel Food Stores of Melrose Park, Ill.; Farm Fresh Supermarkets, Norfolk, Va.; D'Agostino Supermarkets, New York, and Safeway.

For example, "Foods Unlimited," the Safeway publication, is a recipe-laden volume packed with nutrition information. As in many other booklets, the teachings of home economists receive significant play.

With consumers, nutrition pamphlets are becoming a more valued item. In a Food Marketing Institute study tabulated through January, 1984, 78% of respondents thought supermarkets "do an excellent or pretty good job of" providing nutrition and health information. The figure was up eight percentage points from the previous year.

Closely allied with in-store informational booklets are direct mail and fliers. Accounting for more than 12% of the national supermarket ad total, they are popular in the Midwest, where their use approaches $1 out of every $3 spent.

The tremendous growth of circular advertising in the supermarket industry is the most important thing happening in print, Mr. Sosna says. "We see this in the Marriage Mail concept, started by ADVO in Hartford, Conn. They have the ability to give you just those Zip codes you want. Stores used to do them four times a year or at most once a month. Now they do them weekly."

Newspapers, however, are fighting back. There is, according to Mr. Sosna, a danger of wasted circulation in markets such as Los Angeles, which has 117 daily and weekly newspapers.

"Daily newspapers are waging a strong battle against ADVO Marriage Mail," Mr. Sosna says. "They stress their more friendly relationship with readers, since a newspaper is purchased but the fliers come by junk mail. Also, dailies are convering nonsubscriber homes with a bob-tailed version of the regular paper—with ads."

Print also has another, rather unexpected ally—radio. Mr. Sosna says spot radio, which has increased its net dollar amount of supermarket-related advertising 64% since 1980, is stressing "media synergism," or a mixed-media marketing approach.

In "Media Synergism, The Mixed Media Approach to Retail Advertising," published by the Television Bureau of Advertisers, numerous merchants were quoted as to the reinforcement advantages of a mixed-media campaign.

Supermarkets' run-of-print newspaper ads also are beginning to respond to consumers' creative challenges.

Each year, the Food Marketing Institute, in tandem with *Woman's Day*, conducts a creative competition for supermarket ads. "Although the two-page traditional price information grocery ad continues to be one of the primary advertising styles, we see a lot more on the part of companies in the way of service-oriented ads," FMI communications director Karen Brown says. "We see a lot more in the way of service-oriented and company-image ads, more creative use of graphics, more use of white space."

In print, there also seems to be a corresponding trend toward less listing of products. "Creativity starts with the simplicity and singleness of the message," Mr. Goldsmith says. "Consumers are looking for simplicity, but I think that grocery retailers tend to try to get an awful lot into ads. That in itself overshadows what kind of creativity there may be. There's a giant shift in grocery advertising toward more merchandising of single products."

Industry experts see a more practical reason for continued growth of supermarket advertising creativity—increased sophistication on the part of supermarket staff personnel.

"They are more sophisticated and better trained," Mr. Sosna says.

According to FMI research, newspaper grocery ads are three times more likely to be composed by staff than an ad agency, 39% to 13%, with the remainder put together by printers and other resources.

Even with all these changes, grocery advertisers won't ignore advertising prices.

"You have to have price," Ms. Schmierer says. "Mid-America is not exactly full of yuppies, and most people have to know that you are pricing.

"But just like anything else," she says, "you have to be more creative with that, too."

Russell Shaw is an Advertising Age correspondent in Atlanta.

Convenience outlets expanding customer base

By Faye Brookman

One of Circle K Corp.'s 12-ft. outdoor boards shows a construction worker munching a sandwich. By using this hard-hat-clad worker, Circle K, Phoenix, Ariz., the nation's second largest convenience store chain with about $1 billion in sales, appeals to a group long considered the mainstay of the convenience store business: The blue-collar male.

But wait a minute: This rough-and-tough bruiser is eating a croissant sandwich—a strange snack for a construction worker.

Hold on, the story gets even stranger. Down the road a few miles is another Circle K poster featuring a professional-looking woman—another odd ad pitch considering that women make up two-thirds of those who do not frequent convenience stores, according to Gallup Trends Reports.

The paradox in both cases is intentional, says Joe Jacober, Circle K's account manager at WFC Advertising in Phoenix.

"We use real people but with a different twist, like the blue-collar worker eating a croissant. The idea is to give infrequent shoppers a reason to come to Circle K," he says.

Faye Brookman is a free lance writer specializing in retailing.

Circle K is just one of the nation's convenience store chains taking bold steps to strip away the old stereotypes of being a supplier of last-minute party supplies and snacks in hopes of attracting new shoppers, particularly women. The primary convenience store shopper has been a male between the ages of 18 and 34.

According to Gallup, if more of the 11% of customers who are infrequent shoppers could be enticed to come in about twice a month, it could result in as much as 1,200 more visits, or $29,000 of additional revenue per store. That's on top of the $500,000 an average 4,000-sq.-ft. unit churns out each year.

"We are appealing to a group that has not traditionally been a substantial part of our customer base in the past, but can be in the future," says J.S. Brewster, vp-finance and chief financial officer for National Convenience Stores, Dallas, the nation's fourth largest chain, with annual sales of about $819 million.

To woo this customer, stores are adding more fast foods, including freshly prepared dishes, more health and beauty aids, and better services. Today a woman can purchase a dinner to prepare in the microwave and some nachos plus rent a videocassette all under one convenience store roof.

"Convenience stores used to say, 'Sure we cater to women; we sell panty hose," one industry observer says. "Now they know it takes more than a pair of L'eggs."

No longer just a late-night haunt for people on a beer run, the $43.3 billion (including gas) convenience store business is thriving. Sales rose 16% last year while earnings climbed 28%. Convenience stores are beginning to give supermarkets and other food retailers a better run for their money.

According to industry trade publication *C-Store Business*, convenience stores now account for 8% of total food dollars, up substantially from 10 years ago when these units grabbed a 3.8% share. Moreover, New York-based researcher Frost & Sullivan predicts sales increases will outpace other food retailers through 1987.

This sales optimism is generated by the stores' targeting new customers. Working women will prefer the convenient foods and the easy shopping, Frost & Sullivan says, and more than 50% of all convenience stores are open 24 hours to meet changing work and shopping schedules.

The bright outlook for convenience stores does not dismay traditional supermarket chains. "We appeal to a different consumer," says a spokeswoman for Lucky Food Stores in Dublin, Cal. "We have everyday low prices and a broad selection."

But supermarkets aren't sitting still for convenience stores. According to Ed Gagnon, an analyst and investor relations expert at Dallas-based stock brokerage Eppler, Guerin & Turner, food stores have reacted to convenience stores by adding express checkout lanes. One chain, Supermarkets General Corp.'s Pathmark Supermarkets, Woodbridge, N.J., promises a new lane will be opened if customers have to wait behind more than three people.

Even with express lanes, 60,000-sq.-ft. units can't be considered convenient. The trend to megastores, which has propelled the food industry, also has fueled growth in convenience stores.

Pathmark reported $4.3 billion in sales in 1984.

"The big opportunity for convenience stores," says Larry Schaeffer, editorial director for *Progressive Grocer*, another industry trade publication, "is to fill the void left by the closing of small, conventional food stores forced out by one-stop shopping."

Kerley LeBoeuf, president of the National Assn. of Convenience Stores, agrees.

"Convenience stores will never replace other foods stores as the primary shopping outlet, but as these superstores are forced to be spread far apart, convenience stores will become more of an outlet for fill-in needs."

To spur even more growth, convenience stores are revamping many strategies.

"They have cleaned up the stores, given more attention to training of personnel and reworked pricing to help eliminate the negative image they had in past years," says Denise Melinsky, editor of *Convenience Store News*.

With the new look of the stores, convenience retailers have found a need to spread the word. "We did not advertise very much before," Mr. Brewster says of National Convenience Stores, which operates units primarily under the Stop N Go name, "because we were just another 7-Eleven-style operator. Now we have a new prototype, new graphics and a reason to reach people."

Says Ms. Melinsky, "There is more use of advertising and it is not just hyping convenience but price as well. Convenience stores are going head-to-head on some prices with food stores."

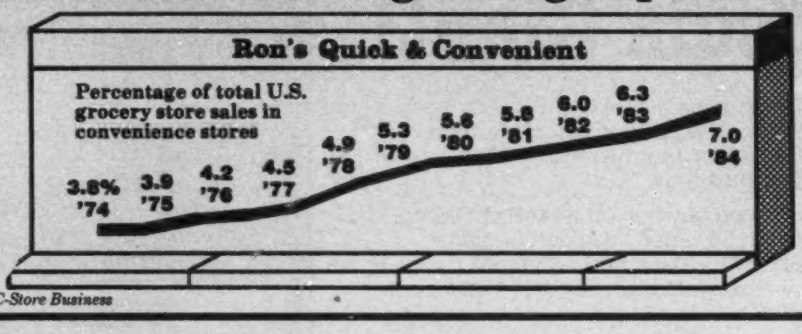
Outdoor boards and radio are the two primary advertising vehicles, industry marketing executives say, and larger chains are increasing their use of spot tv.

Circle K, for instance, will launch a new campaign weighted heavily toward radio and tv, according to Duane Baukus, senior vp-marketing. Print ads and possibly direct mail also will be used. Outdoor boards are used extensively by Circle K, primarily because the corporation owns Bauman Co., an outdoor board company in El Paso, Tex.

On radio, jingles are still the most powerful tool convenience stores have, Mr. Gagnon says, especially during peak driving

(Continued on Page 38)

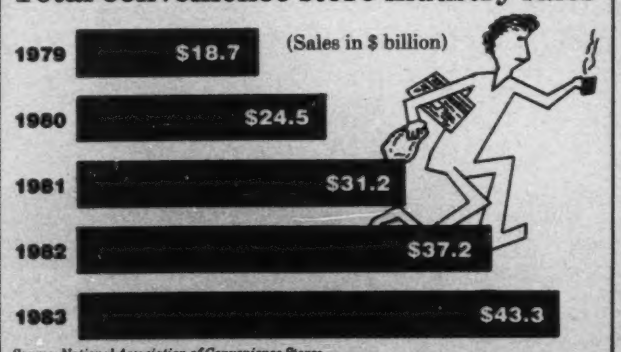
Convenience stores' growing importance



Source: C-Store Business

Circle K Corp. is among many convenience store chains offering fast food options.

Total convenience store industry sales



Source: National Association of Convenience Stores

65 and not retiring

(65th in U. S. population)

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Source: 1980 U.S. Census SM&M, 1983

Small stores cling to city corners

By Eileen Norris

For 17 years, Carmelo and Esther Varela have worked 15-hour days in Varela's Spotlight Groceries, a cramped corner store that lies in the shadow of Chicago's Wrigley Field.

The neighborhood is in transition—assaulted by youth gang graffiti on garage doors and gussied up by rehabbed graystones that have been taken over by the newest of the nouveaux riches, young urban professionals.

For the Varelas, 1984 heralded not so much a fear of George Orwell's "Big Brother" as it did a fear of big corporations, specifically the convenience store that moved in across the street.

The 7-Eleven, marked by its distinctive orange shingles and owned by Southland Corp., Dallas, opened its doors just one year ago, not long after the neighborhood began an obvious economic rebound. At that time, the Varelas feared they might not be able to make it in a competitive price and hour war with the corporate giant that operates more than 7,000 stores around the clock in 42 states.

Although Varela's Spotlight Groceries is still open everyday from 8 a.m. until 11 p.m., Mr. and Mrs. Varela are not sure they have survived the battle.

"We can't say the 7-Eleven has downed us. Business has been profitable, but it hasn't been a good year for anyone," Mrs. Varela says as she rings up small orders from a steady stream of regulars.

"This is a neighborhood store in a walking neighborhood with too many stores to compete with," she says. "Customers are shop-hopping, going from us to the 7-Eleven to the Jewel or Dominick's [two nearby large supermarkets] to pick up one or two items at each that are on sale.

"All we can do is service our people," she says. "People come in and ask for something and we get it. If there's a problem, they confront the owners, not just some salesperson. There's no permanent set of rules here, and if we know someone, we'll take their personal check."

Varela's is a classic example of what some observers see as a dying breed: The urban neighborhood grocery. Under siege since the late 1950s by large supermarkets, the "corner" grocery store has survived by being convenient and available to shoppers walking in the neighborhood.

Now a new competitor, the convenience chain store, also is aiming at that marketing niche and offering longer hours and other advantages.

One of the only remaining advantages for the old urban corner store over a convenience chain store often is price.

"We never ripped off our customers and we never will," Mrs. Varela says. "We buy at the best rate and we will buy 10 cases of something so that we can pass the savings onto our people."

Convenience stores, she says, get the same good rates from wholesalers and distributors but fail to pass on that savings to the customer.

Donald Ciszewski, 7-Eleven zone manager for the Chicago area, says most pricing is dictated by the corporation, but the stores try to compete locally with special pricings sometimes.

But the price competition isn't cutthroat.

"The Varelas are still there; there's room for everybody on the street," he says.

"The convenience stores are higher priced by their choice," says Donald Bloom, vp of Bloom Komon Distributors in Countryside, Ill. "The only thing you won't find upcharged is a newspaper. They demand a 35% to 40% markup on the cost of goods so that even a 35¢ candy bar will be 40¢."

Mary Hershey

Esther and Carmelo Varela have owned Varela's Spotlight Groceries in Chicago for 17 years.

In some cases the mom-and-pop operation may have lower prices, says Mr. Bloom, whose family has been in the full-line distribution business since 1897. Corner stores once accounted for about 50% of his business, but now he estimates that figure is about 20%.

The Varelas say they have no trouble competing with the convenience store on price. What the mom-and-pop store can't begin to compete with is the chain's round-the-clock hours and 7-Eleven's parking lot in a neighborhood that rivals New York for lack of parking space.

The similarity between New York and Chicago extends to more than just parking problems. Both cities are probably the only remaining havens of the small urban grocery, Mr. Bloom says. Most other cities already have turned to convenience stores for their impromptu and nearby needs.

"The new mom-and-pop store is the convenient store for many, but in certain markets, like Chicago and New York, there are corner stores that appear to be here to stay," he says.

Mr. Bloom estimates there are thousands of corner stores in the Chicago metropolitan area that still are doing a good business.

However, a lot of corner stores tend to be undercapitalized, and that can be a major problem, Mr. Bloom says. "Some aren't good credit risks and a lot are not in the financial position of carrying enough selection. Sometimes that forces their customers to go to the chains."

It is difficult for the corner store to afford and maintain enough stock, agrees Shelly Grossman, editor for the National Candy Wholesalers Assn. magazine, *Candy Wholesaler*, in Washington. Member wholesale distributors also sell tobacco, candy, health and beauty aids, and groceries to small and large stores.

"Many mom-and-pop operations can't afford to buy in bulk from grocery wholesalers, and some don't have the room for backup stock," she says.

Some turn to wholesale cash-and-carry operations that cater to small businesses that have a limited amount of capital or space to store merchandise, Ms. Grossman says.

Corner stores are "turning into the convenience store of the 1980s. Both have high markups, long hours and a limited amount of product, so where do you draw the line? It's just an evolution of terms," she says.

No one really knows how many small, urban groceries remain, says Bruce Smith, vp for *Progressive Grocer*, a Stanford, Conn.-based trade publication. "Our data center doesn't even track the number because the corner grocery store is not a fac-

Convenience

(Continued from Page 36)

hours. Circle K has its "We'll save you some time," and Southland Corp.'s 7-Eleven, the largest convenience store chain with $5.9 billion in annual sales, has countered with, "We'll save you more than time."

Convenience stores also are getting more involved in corporate sponsorships as a method to spread their name. Southland was a major contributor to the 1984 Olympics.

The company allocated $4 million for the building of the Olympic Velodrome.

A source at Baltimore-based High's Dairy Stores convenience stores says advertising will become more important as the various convenience stores try to get more exposure.

Once the advertising entices the customer, the mix and the store layout must trigger the sales.

Convenience store operators say they are increasing their fast food offerings to not only please customers, but also improve gross profit margins.

"Fast food is the fastest growing sector of our business," Mr. Baukus says.

Sales of fast foods at the Circle K chain amounted to $51.7 million, or 8% of total sales (excluding gas), in 1984.

The profit picture was even rosier. Convenience stores average a 30% gross profit margin, but fast food yields gross margins as high as 60%.

With that in mind, National Convenience Stores hopes to fatten its fast food sales from a 6% share of total volume in 1984 to a 9% share in 1987. One of the company's vehicles to reach this goal is its new hexagonal-shaped building. The company will open 80 of these 3,300-sq.-ft. stores this year and all will devote 25% of selling space to fast food, including an area for dining.

"They have a wonderful open-refrigerator section to sell sandwiches," Mr. Gagnon says. "It is as attractive as produce departments in food stores and it helps convince shoppers of the quality of the goods because they can actually touch the sandwiches."

Additionally, Mr. Gagnon says, the planned purchases are located in the rear of the new stores so customers must pass the high impulse foods and snacks.

Circle K, 7-Eleven and WaWa Stores in WaWa, Pa., (a smaller chain with about $259 million in 1984 sales) are other operators revamping the store layout to emphasize food offerings. "These items are placed in high traffic, high visibility spots to maximize exposure," Mr. Baukus says.

Shoppers also cannot miss the various services convenience stores now are offering. Automatic teller machines and airline ticketing head the list.

The planned purchases are located in the rear of the stores so customers must pass the high impulse food and snacks.

More than 3,000 7-Eleven outlets have automatic teller machines, a spokeswoman for Southland says, and eventually the chain will feature event ticketing.

In the Northeast, 43 7-Elevens now rent videocassettes in an 8-ft. section.

The beauty of this product is

RALEIGH DURHAM WINS BIG

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tor. The corner store as a term doesn't exist," he says.

In terms of national retail food sales, supermarkets that ring up more than $2 million in annual volume account for 72%. Convenience stores account for another 6% of the annual sales, leaving 22% of all retail food sales to be divided between neighborhood stores, delicatessens and superettes, small grocers that do less than $1 million in sales a year.

"Corner stores exist only if they provide a service to the neighborhood they're in," Mr. Smith says. "The only place you won't see the growth of the convenience store and the decline of the mom-and-pop operation are in Chicago and New York, especially Manhattan, where there are greengrocers and specialty butcher shops on just about every corner," Mr. Smith says.

The National American Wholesaler Grocers Assn. also says it has no idea how many corner stores are in existence, but estimates there must be 85,000 stores in all, with annual sales of less than $1 million. That doesn't include the about 50,000 convenience stores, says Richard A. Brown, vp-operational services for the association, which represents large and small wholesalers and distributors.

"The corner store doesn't seem to be having as much trouble existing as the medium-size store," Mr. Brown says. "The megastore chains are getting larger and the smaller stores have found a special neighborhood niche. They offer a convenience to the neighborhood. The feeling is that convenience stores tend to go into areas more outside of a downtown city, like in a shopping center or a new housing development."

Corner stores can continue to make money when they're needed and when they don't have a bigger store to compete with, he says. "It's still a good business as long as the community in the area responds and with many, a relationship with customers 90 hours a week breeds a certain kind of loyalty."

Member distributors and wholesalers of NAWGA have no problem catering to the smaller grocery store either, he says, unless the wholesaler has a minimum order size. "The economy of wholesaling is reducing the number of stops the truck has to make, but there are a lot of small wholesalers out there who want to service the small account. The corner store might be charged a little more for delivery and service, but his operating expenses and overhead are considerably less."

Since the 7-Eleven moved in across the street, Varela's Spotlight Groceries has had little difficulty keeping its service contacts. The couple has not had to resort to buying from a cash-and-carry wholesaler.

"We aren't penalized with a minimum order size because we buy in bulk and store our stock in our two full basements," Mrs. Varela says. "But we are having trouble getting service from a bakery that is hesitant to service us. He feels he can sell more stock to the 7-Eleven. That's the only problem we've had."

The Varelas plan to keep their store, which they bought sight unseen for $7,000 from a relative. That was 17 years ago, when the neighborhood was rough and the grocery store windows were broken by punks an average of three times a week, Mr. Varela says.

"We're making a living and trying to get our six kids through school. I'd like to think our customers will keep coming in and won't forget us. We have really lost very little in the last year, and I'd say the 7-Eleven hasn't hurt us that bad. But that's because of our loyal customers."

But, if the right offer came along, "we might sell," he says. ■

that customers must come in at least two times—once to rent and again to return. Research shows these customers are spending about $8 (excluding the rental) on the first visit and $3 on the second.

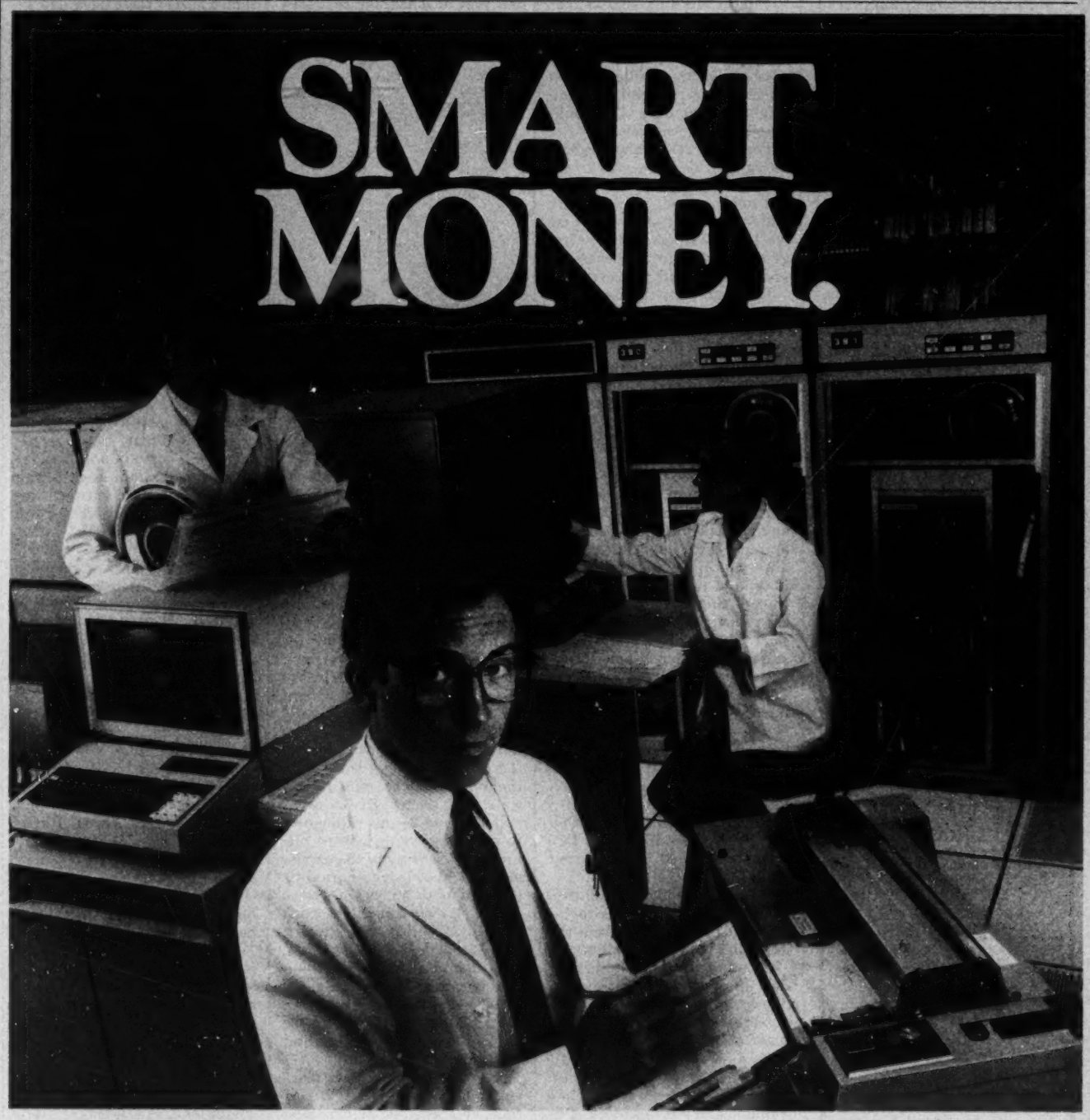
That's higher than the average convenience store transaction, which is about $2, according to the National Assn. of Convenience Stores.

Competition with food stores is not the only reason behind these moves. Oil companies including Hess, Texaco and Mobil are opening their own versions of convenience stores.

Drug chains also are enlarging convenient food selections. Walgreen Co. of Deerfield Ill., Longs Drug Stores in Walnut Creek, Cal., and Fay's Drug Co. in Liverpool, N.Y., for example, all now have 1,000-sq.-ft. food sections offering 800 of the most wanted items in selected stores. Southland supplies several of the sections.

"Today's convenience stores face many of the same challenges as the supermarket industry. Both must adjust to changing demographics. Convenience stores appear to have found their own successful method to do this," Mr. Schaeffer of *Progressive Grocer* says. ■

SMART MONEY.



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The Mercury News reaches the 1.4 million richest people in Northern California! And the Mercury News reaches them better than any other Bay Area newspaper. Five times better. The Mercury News delivers 52% of Metro San Jose adults daily, with a 5-day adult reach of 65%.[2] On any given day, the best the San Francisco papers can do in this market is 9%.[3]

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THE SAN JOSE MERCURY NEWS
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1. 1984 Sales and Marketing Management. 2 & 3. San Jose CMS Belden Associates, 1983.

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Specializing in gourmet tastes

By Joanne Y. Cleaver

It's 8 a.m. on a weekday, and the aroma of rich, fresh coffee fills the air at Cafe Express, an Evanston, Ill., gourmet coffee shop.

Commuters peruse their newspapers, lingering over another cup. Manager Annika Kostrubala and two employes are squeezing fresh orange juice, serving freshly baked breakfast breads and pouring several different types, flavors and strengths of coffee into customers' waiting cups.

In the afternoon, the store is full of students and "the gauze skirt crowd," according to Ms. Kostrubala; after dinner and until midnight, young professionals meet there to sip decaffeinated coffee and talk.

Though the store opened 2½ years ago as a gourmet coffee bean and accessory shop, the continental breakfast and fresh coffee menu accounts for much of its 1984 $90,000 annual gross sales.

But the demand for the store's coffees, which cost between $5.25 and $6.75 a pound, is as strong as espresso, and Ms. Kostrubala is trying to figure out how she can rearrange the tiny store to accommodate an expanded line of beans, coffee makers and exotic accessories dear to the hearts of coffee aficionados.

Such are the problems of specialty food stores. The adventuresome spirit of today's gourmets has spawned an enthusiastic demand for the unusual, the imported, the best, the latest, in food trends. Shops selling primarily cheese, coffee, fresh fish, chocolate, pasta or rich and unusual baked goods are springing up all over.

Consumers with gourmet palates brush aside the conveniences of the local grocery store to make multistop shopping trips, even timing their arrivals with that of the fresh scallops or red snapper.

Food business insiders say it's almost impossible to gauge how many specialty food stores exist. Many are very small and family owned. But there are some indicators of the specialty food category's recent explosive growth.

The National Assn. for the Specialty Food Trade's winter show in February had more than 400 exhibitors—a 30% increase from the 1984 winter show. More than 15,000 trade insiders attended, a 10% jump.

According to the retail division of the Census Bureau, the latest survey of independent food shops, completed in 1982, reveals that the number of specialty stores nearly doubled from 1972. At the time of the survey, that category included 6,317 stores with total annual gross sales of $1.6 billion—a figure that industry insiders say probably has doubled by now.

Specialty food stores also are commanding a dominant market share in the fragmented world of gourmet foods, according to the 1984 Gourmet Retail Market Report, commissioned by Miami-based *Gourmet Retailer*. Competing with cookware, coffee, cheese, gift gourmet shops and even department stores' gourmet food sections, specialty food stores came out on top in nearly every category surveyed, from chocolate confections to Dutch cheese.

The survey did not include grocery stores' gourmet sections.

The profile of the typical gourmet food customer is not surprising: Urban, two-wage earner household, sophisticated and self-confident, in short, the kind of person who figures he's worth the extra money it takes to have Swiss water-decaffeinated fresh almond-flavored bean coffee sitting in the cabinet rather than Maxwell House.

But association executives and store managers also agree that the customers are of all ages, very interested in food as a hobby and health-conscious.

According to Edward Loeb, publisher of *Gourmet Retailer*, the groundwork for the current

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Joanne Y. Cleaver is a frequent contributor to Special Report.

What specialty stores sell

AISLE SIX

Specialty	Stocking	Adding
Cookware or hardgoods	32.4%	14.8%
Specialty foods	100%	--
Confections	82.9%	8.3%
Coffee and/or tea	80.6%	7.4%
Cheese	83.3%	3.7%
Kitchen cutlery	25.5%	15.3%

Source: 1984 Gourmet Retail Market Report

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Restaurants cater to home eating

By Julie Liesse Erickson

Having a pizza at home is as American as mom, baseball, hot dogs and apple pie. But what happens when mom doesn't have time to cook?

Then pizza may be partially prepared by Edwardo's Natural Pizza restaurant, the apple pie baked by Bakers Square, and the meat selection, along with the sauce and side dishes, purchased raw or ready-to-cook from a favorite local eatery.

As home cooking shrinks as an American standard, restaurants and grocery stores are invading each other's turf with new fervor to compete for the growing carryout and prepared food market. For grocery stores, the weapons are soup and salad bars and on-premise bakeries.

And for a growing number of restaurants of all types—full service as well as fast food—takeout foods, retail grocery counters and home delivery have become a routine part of the daily menu.

So far at least, the invasion has not been dramatic. Latest estimates compiled by Technomic Industries, a Chicago-based leader in foodservice industry research, indicate that one out of every five meals is eaten away from home. That figure, Technomic president Ron Paul says, "is changing very, very slowly" in the favor of restaurants.

"Restaurants [someday] may account for one out of every four meals, but people ask when one out of every two meals will be eaten away from home," he says. "The answer is never."

Perhaps more worrisome for grocers is the company's estimate that between 40% and 45% of America's food dollars are spent away from home. Soon, Mr. Paul says, foodservice and groceries will share equally in consumer food spending.

Changing demographics—more working women, more two-income families—and improved foodservice industry efforts indicate that takeout foods and home delivery will become more important in that equation.

Takeout already represents a formidable percentage of restaurants' sales. Technomic estimates the industry's takeout sales at $20 billion yearly.

The fast food industry's rule of thumb says about 40% of sales are not eaten in the restaurant. Wendy's International, Dublin, O., meets that percentage with conveniences such as its drive-through window, which in many cases is open 24 hours.

For pizza restaurants, thus far foodservice's most accepted participants in takeout and home delivery, those sales are even more important. Ann Arbor, Mich.-based Domino's Pizza has grown to more than 1,200 units through pizza delivery only.

Wichita, Kan.-based Pizza Hut, conspicuous for years because of its lack of a delivery system, is testing home delivery.

Mama Mia! Pasta in Chicago offers complete dinners to go, including a bottle of wine.

And even for "gourmet" pizza restaurants, such as the eight Edwardo's shops in the Chicago area, takeout and delivery account for 43% of the average unit's about $1 million in sales.

In addition to the convenience of takeout foods, Mr. Paul says, "The home has become an entertainment center in itself. If consumers have [videocassette recorders], tvs, stereo systems, cable tv, you have to expect that they're going to be using them. They want to be in their home, but they don't want to cook."

That's what Dorothy De Carlo and David Houle, co-owners of Chicago's two-unit Mama Mia! Pasta chain, discovered in their first restaurant, an upscale fast-

Julie Liesse Erickson, an associate editor of Advertising Age, has covered the foodservice industry for more than three years.

Gourmet

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popularity of gourmet foods was laid about 10 years ago when gourmet cookware shops started springing up.

When cookware sales started to peak, he says, "The independent retailers started to put in consumable items. The easiest ones were coffee and tea of all types." Deluxe preserves, condiments, flavored cooking oils, vinegars and wines were next, he says, and now virtually all gourmet cookware stores also stock some types of food—and vice versa.

Much of the appeal of specialty food shops comes from the atmosphere and service created by knowledgeable salespeople. The family-owned stores go out of their way to be sure customers get what they want and know what to do with it when they get home.

"People come to a gourmet shop expecting service," says Steve Pasto, editor-in-chief of Barrington, R.I.-based *Food Distributor*. "And service means [telling them] where the cheese came from and what to do with it."

Even the most adventuresome can be stymied by indecision when trying to put together the right combination of goat cheeses, soft cheeses and whole-grain crackers for a party.

Encouraging customers to sample food is standard operating procedure for specialty shops, says Marc Nathanson, administrator of the retail division of the National Assn. for the Specialty Food Trade.

"If you're going to spend that kind of money on food, you shouldn't be buying it prepackaged off the shelf," he says. Sampling is also "one of the strongest marketing techniques in specialty stores." Impulse purchases are increased by sampling, and it also encourages customers to buy groups of related products—such as chocolates and coffee.

An equally strong appeal of the service emphasis is the enjoyment customers get out of seeing their food prepared before their eyes.

Even fish stores, which formerly had a reputation for having an atmosphere people avoided, are evolving into gleaming, tile-lined emporiums of fresh seafood.

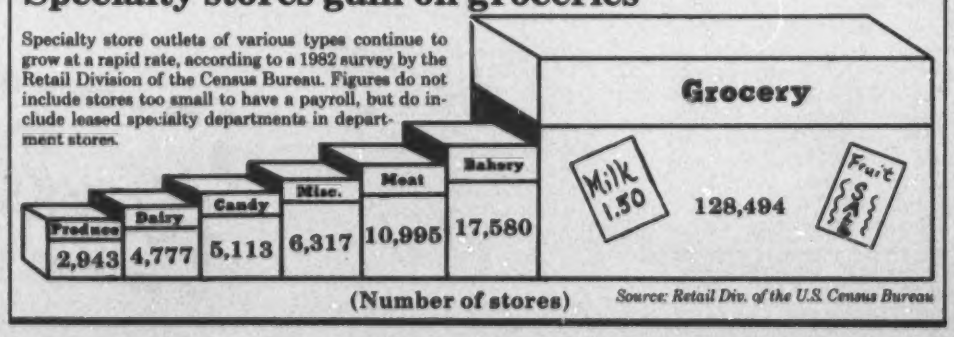
"People walk into a fish store and they expect greater variety and preparation aids," says Bob Arnold, director-marketing for the National Fisheries Institute. "They want to see the whole fish cut down. They'll come in to see [that] even though they don't want to buy something. Watch people around a lobster tank. They'll sit there and make faces at them."

Recognizing that specialty foods appeal to many people who aren't sure how to prepare or serve them, many gourmet shops are branching into takeout and catering services. Evanston SeaFoods, for example, features homemade chowder and gumbo, as well as deep-fried shellfish. Takeouts account for 25% of sales, owner Marion Maguire says.

Other stores, such as Cafe Express, are installing small

Specialty stores gain on groceries

Specialty store outlets of various types continue to grow at a rapid rate, according to a 1982 survey by the Retail Division of the Census Bureau. Figures do not include stores too small to have a payroll, but do include leased specialty departments in department stores.



Source: Retail Div. of the U.S. Census Bureau

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service shop specializing in freshly made pasta and sauces.

"When people call in a dinner order to pick up, they know there's someone else slaving in a hot kitchen making the pasta and sauce and plating it just for them—but they don't have to worry about the fuss or the mess," Ms. De Carlo says. "We can give them complete dinners to go—pasta, sauce, bread, dessert, even a bottle of wine. What amazes me is that people don't even want to toss a green salad.

"But I know what *I* like—and there's nothing like having it done for you."

Another attraction of Mama Mia!'s takeout, delivery and grocery options is the food's freshness. "We make our pasta fresh daily and once people have been to our restaurant a couple of times, they realize there's a distinct difference between it and store-bought pasta," Mr. Houle says. "We're educating people to believe it's better to buy it fresh —with no preservatives."

Takeout and delivery combined account for about 15% of Mama Mia!'s sales. The original restaurant and its six-month-old sister store have yearly sales of $2 million to $2.5 million and offer pasta by the pound and sauces by the quart as well as individual-portion dinners to go.

If customers want an unusual combination of bulk foods not normally produced by Mama Mia!, such as whole-wheat pasta shells, the store generally will accommodate. Such personal attention by restaurant staffs to individual consumer needs is even more widespread, however, at retail grocery counters attached to restaurants.

At Timbers Away!, the retail shop located under the roof of Timbers Charhouse, Highland Park, Ill., customers can purchase raw the fresh meats and exotic fish featured on the dining room menu.

"We'd get a lot of customers asking whether they could buy a couple of slabs of meat from us," says Jillian Okun, director-marketing for Timbers parent, Northbrook, Ill.-based Errant Enterprises. "They'd tell us that they couldn't find such good meats in their grocery stores—or that they couldn't find the fresh turbot or pompano or other exotic fish they'd sampled in our restaurant."

> **"They'd tell us they couldn't find such good meats in their grocery stores."**
>
> *—Jillian Okun*
> *Errant Enterprises*

Now, Ms. Okun says, customers can purchase these raw materials, as well as the full-service restaurant's freshly made salad dressings, salads, baked goods and desserts, from Timbers Away!

"They're getting the quality they already have witnessed in the restaurant," she says. "And sometimes, if they don't know exactly how to prepare one of our exotic fish, we'll try to team them up with our chef, who gives them pointers—and perhaps even filets a fish for them."

Although Timbers, not yet open six months, does not have sales figures available, its sister Claim Company restaurants in Northbrook and Oak Brook, Ill., together ring up $250,000 annually in takeout of prepared meals.

One reason the Claim Company added a takeout menu was to satisfy customers who didn't want to wait in line for a table at the two popular restaurants, which do not accept reservations.

That same problem—customers lined up outside the door—led to a takeout business for The Crab House restaurant in Miami. But in this case, the takeout business has developed into a separate chain of takeout-only facilities.

The Miami Crab House was purchased in 1976 by Edward Scharps and Leonard Rapaport, who boosted its annual sales volume to the current $3 million. By the early 1980s, the restaurant was generating $500,000 in

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seating areas where customers can munch in comfort.

Despite such amenities, the specialty food stores pose little threat to grocery stores' 92% share of the food market. But the grocery chains closely watch the gourmet shops to see what food trends are gaining strength, according to Ian Gittlitz, publisher of *Gourmet Today/TeleFood*, a New York-based publication that goes to 15,000 gourmet cookware and food stores.

Mr. Gittlitz and other industry insiders agree that supermarkets' expanded gourmet sections reflect the national appetite for specialty foods.

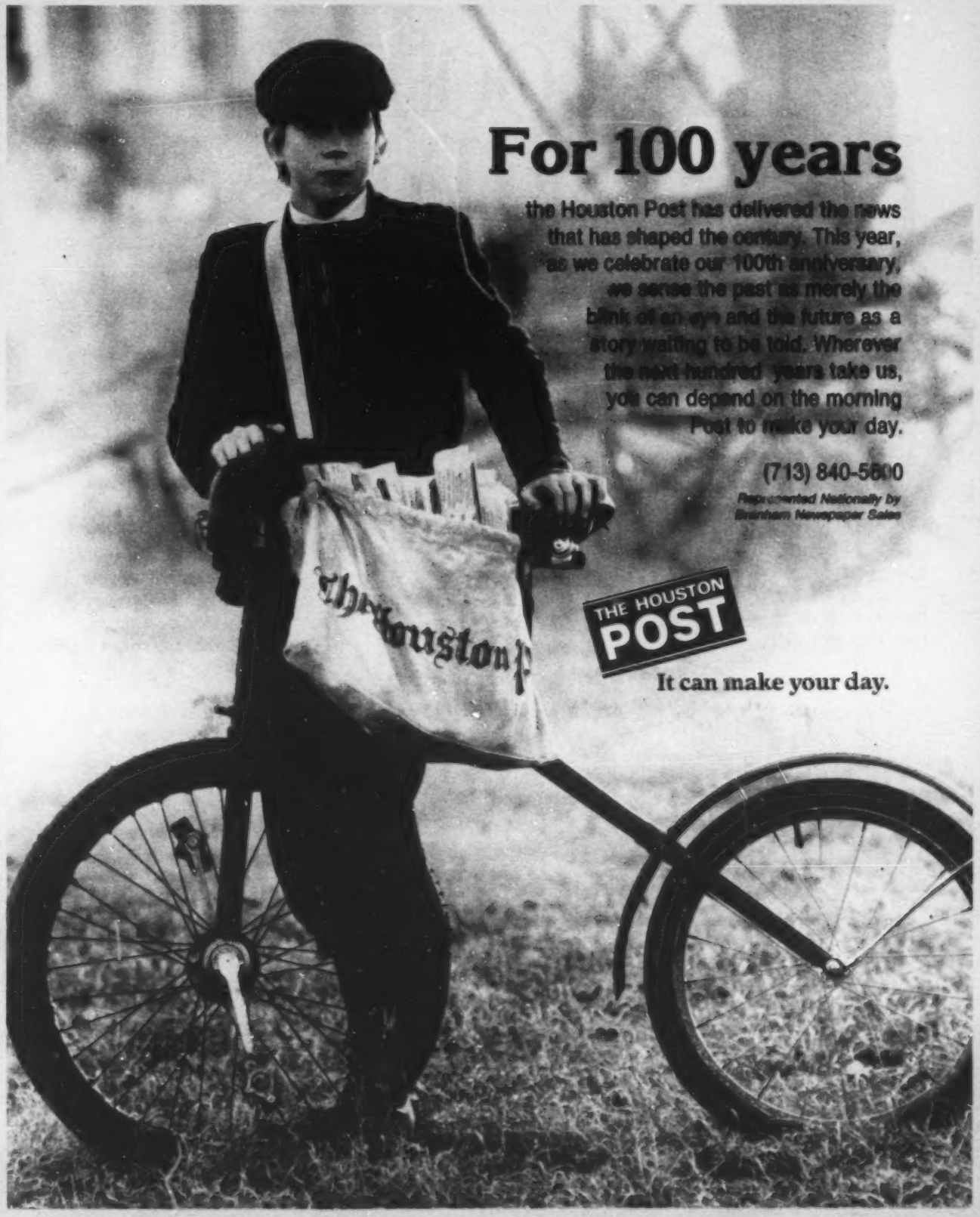
Many food distributors and manufacturers use specialty shops to build their market presence and then are thrilled to broaden their distribution through supermarket chains.

But the paradox is that a widely distributed specialty food is no longer unusual; therefore, it loses its appeal to the status-seeking gourmet.

However, the specter presented by the local grocery chains stocking whole bean coffee to be ground at the store doesn't faze Ms. Kostrubala of Cafe Express.

What does scare her, she says, is the thought that a restaurant corporation might pick up on the success that specialty food shops are having and launch a chain of gourmet coffee shops that sell coffee both by the bag and the cup.

Even so, she's convinced her customers would remain loyal. "The people here just want to start out their day right, with a good cup of coffee," she says.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